RECIPE FOR SUCCESS

More companies are improving their corporate reputation by asking, "What is our *purpose* and how can that best be communicated?"

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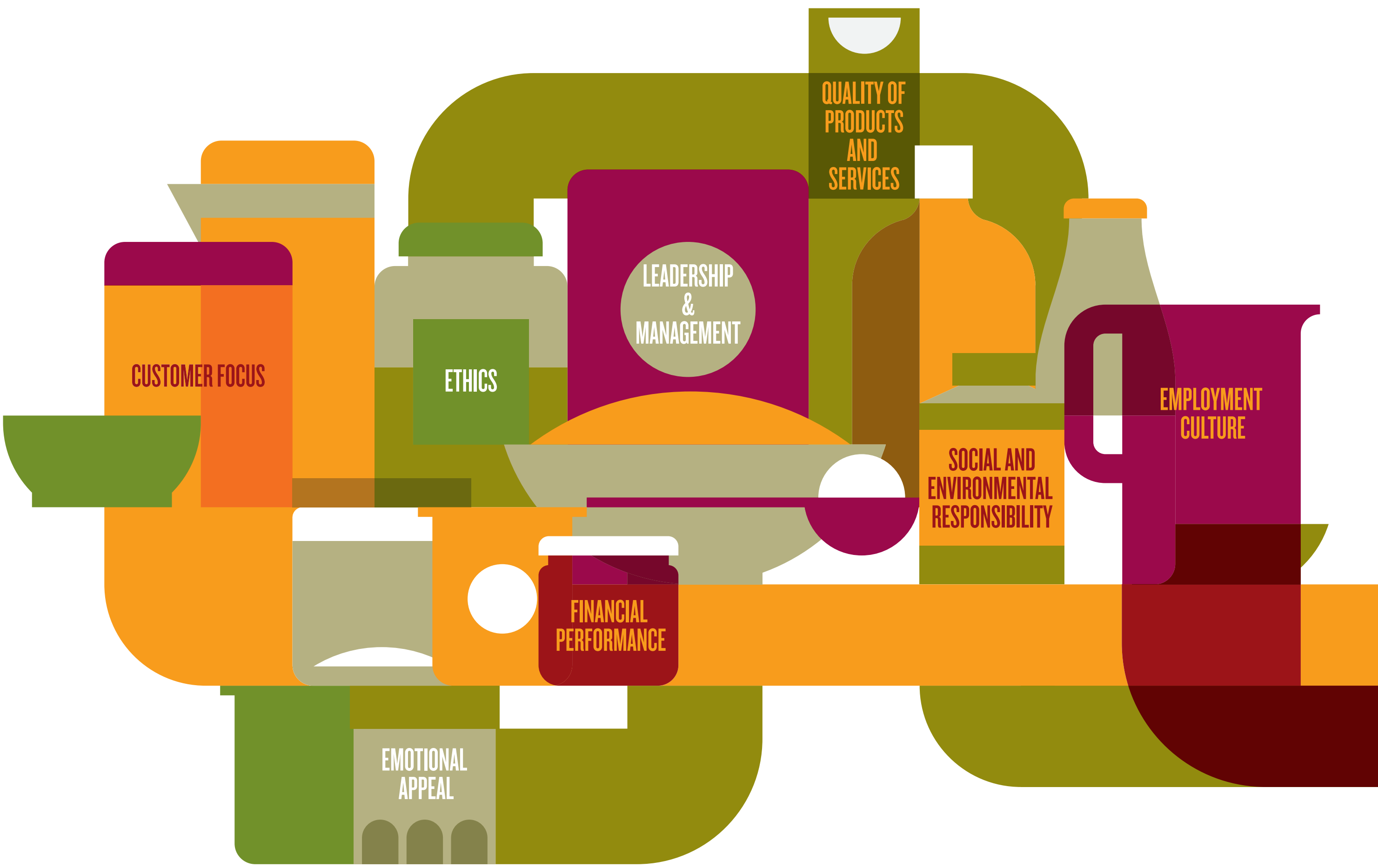


It's a Saturday morning and today's issue of *The New York Times* happens to include three front page stories in which reputation is a central theme. There is a Secretary of Defense whose reputation for candor earns him respect on the Hill; a hedge fund that has been shut down because its reputation was irretrievably destroyed by an FBI investigation; and a wealthy businessman whose political reputation clouds his philanthropic efforts.

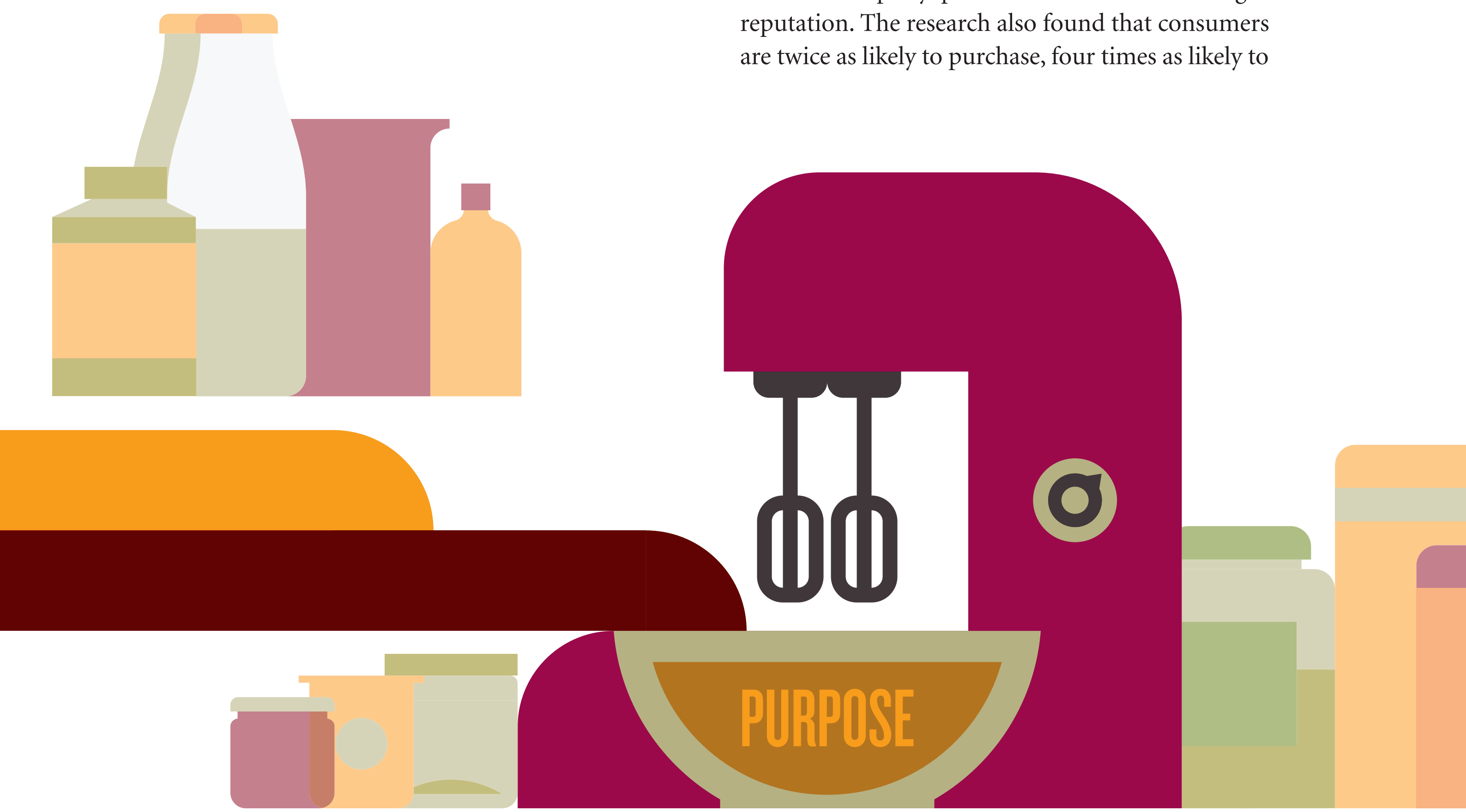
It is a typical day's coverage. Any day of the week, in any newspaper, magazine or blog, reputation is often at least an implicit part of many stories. Successive crises on Wall Street, corporate scandals and a deep economic recession mean that reputation has never been more intensely scrutinized. At the same time, a solid reputation has never been more beneficial – just consider the attention paid to the most prominent annual reputation rankings, such as *Fortune* magazine's *Most Admired Companies* and *Barron's Most Respected Companies*.

A RETURN ON REPUTATION?

Reputation matters, but how do you measure and attach value to it? Though no simple formula exists, there is plenty of evidence that shows a connection between reputation and key financial metrics. Brunswick examined the top 50 on *Barron's Most Respected* list and found a strong correlation between a good reputation and both a higher stock valuation and a lower cost of capital (see chart opposite).

In our study, eight of the top 10 companies on *Barron's* list enjoyed a premium valuation compared to their respective industry peers, as measured by price/earnings-to-growth (PEG) ratios, a widely-used benchmark. Similarly, using share price betas (a share's volatility against the broad market index, which is a component in the cost of equity) nine of the top 10 have a lower cost of capital.

Reputation also has measurable marketing benefits. Research from Prophet, a strategic brand and marketing consultancy, showed that consumers will, when faced with a choice, usually buy a brand from a company perceived to have a stronger reputation. The research also found that consumers are twice as likely to purchase, four times as likely to



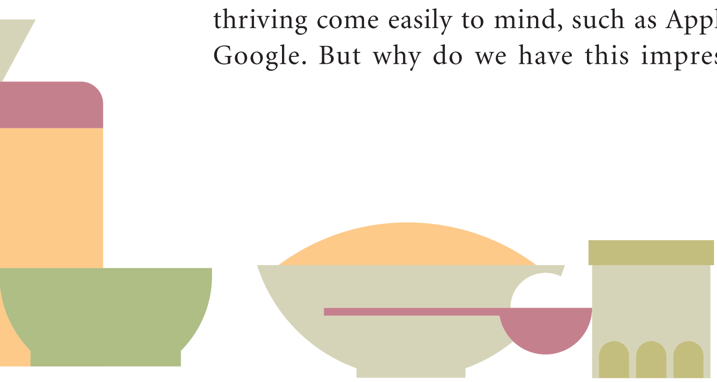
pay a premium, and almost 10 times more likely to recommend, products or services from companies with "leading" reputations versus "failing" ones. So strong is this trend that investing money in a corporate reputation program is arguably a more cost-effective way to market products or services than sinking money into individual product campaigns, particularly at a time when social media channels have put so much of a company's fate into the hands of its customers.

A good reputation can provide an edge in employee recruitment and retention too, which has undoubted benefits, especially when competition for talent is on the rise. It also can make a critical difference in navigating the corridors of power, especially in Brussels and Washington, DC, where reputation is the currency of communications.

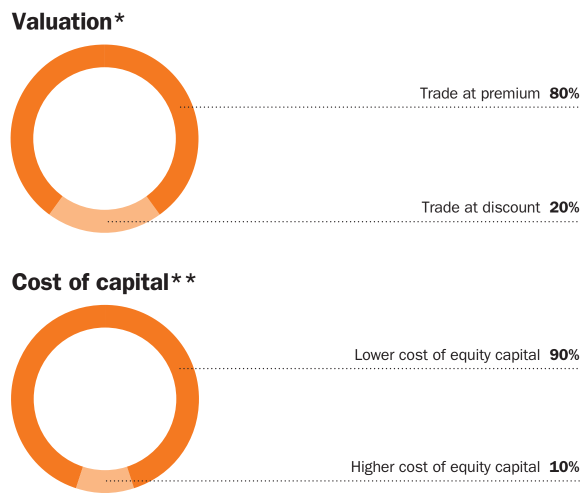
So, if it can yield such clear returns, how do companies build and maintain their reputation? What makes us respect and trust some companies and not others? Is it enough simply to invest in effective corporate branding?

On the last point, it is important to remember that while branding and reputation management are close cousins, they serve very different purposes. Branding is targeted at the customer and is designed to sell a product. Reputation management, on the other hand, aims to build trust and an emotional connection with all stakeholders in order to meet a broad range of business objectives. Put another way, a strong reputation enables a company to go from merely functioning to thriving – better able to raise money, to successfully enter new markets and communities, to recruit top talent, and to help shape legislation... *and* to sell products.

At any given time, companies we think of as thriving come easily to mind, such as Apple and Google. But why do we have this impression?



Based on *Barron's Most Respected Companies* list, companies with strong reputations enjoy a premium valuation compared to their peers and a lower cost of capital



* *Barron's Top 50 Most Respected Companies*, published in February 2011. We examined forward PEG ratios of the top and bottom companies on the list and compared them to the respective industry averages.
** Derived from CAPM; Cost of equity = risk-free rate + (beta * country risk premium). We compared company betas to the average beta for each company's industry.

Early in my career, a CEO would have answered that question with one simple answer: it is because they deliver good financial results. Today, financial performance is just as likely to be driven by reputation as informed by it, and there are many other ingredients that go into the reputational mix. These include good leadership and management; social and environmental responsibility; ethics; employment culture and emotional appeal; as well as more traditional components such as quality of products and services and customer focus along with financial performance itself.

THE STATED PURPOSE

Reputation has to be seen as more than just the sum of its parts, rather as the embodiment of something larger. Bill Taylor, co-founder of *Fast Company* magazine and a regular contributor to the *Harvard Business Review*, says, "The most admirable companies don't just sell competitive products and services. They stand for important ideas – ideas meant to shape the competitive landscape in their field; ideas meant to reshape the sense of what's possible for customers, employees, and investors."

Standing for an important idea or concept is the essential element of reputation management. At Brunswick we call this *purpose*: it is the "why" a company engages in its business besides making money. In *The High-Purpose Company*, Christine Arena found a strong correlation between purpose and reputation. Companies that paid most attention to their purpose enjoyed the highest reputations.

One immediately thinks about GE and IBM as companies that have gone a long way in defining their *purpose*; one imagining a better healthcare system and environment, the other committed to making the world a smarter planet.

Every company has a purpose, but some are better at expressing it than others and put more effort into communicating it. The role of a professional communications adviser, then, is to help companies define the "why" of their business and to then invest in that concept to benefit the company's reputation. It's a process that involves a number of components, including robust research and analysis of the company's brand; its community efforts; history and prior issues; studies of analyst research and of reputation; and dialogue with management and key constituents to truly understand what can be defined as a company's "core truth." This then forms a critical foundation, a narrative that provides essential stability and direction to all subsequent corporate communications.

Take a company like McKesson, a healthcare company in the top 20 of the *Fortune 500* that delivers vital medicines, other medical supplies and information technology to every part of its sector. That is what McKesson *does*; but *why* does it do it – what is its purpose? That produces a different answer. McKesson's purpose is to enable healthcare institutions to be better businesses so that, in turn, they can provide better care to patients. That is a broader mission and is, no doubt, a factor behind the company's designation as an "industry champion" on *Fortune's Most Admired* list.

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>
> *Bill Taylor, co-founder of Fast Company magazine*

Companies with strong reputations do not communicate simply to meet disclosure standards, but engage with openness and consistency. Given that much of a company's reputation is tied to leadership, the tone has to start at the top with the commitment of the chief executive and his team. The failure to nurture reputation at the top has been seen to cost companies, time and time again. Describing the contrasting outcomes for two executives in a story entitled *A Tale of Two CEOs* in *The Wall Street Journal*, Alan Murray, the newspaper's Deputy Managing Editor and Executive Editor Online, wrote, "For better or for worse, [being a CEO] is a much more public game involving a wider range of constituencies and requiring the skills of a politician."

THE PLATFORM'S FOUNDATIONS

Most reputation programs are built on the concept of "thought leadership," a business term that has gained currency since the mid-1990s. In its practical application, it means leveraging expertise to lead public debate on an important issue that is a natural extension of a company's purpose.

With thought leadership, a company goes well beyond merely selling a product or service to leading national dialogue on an issue, and in doing so it burnishes its reputation and differentiates itself from competitors.

Intel is a good example of a company that has carefully built a reputation as an innovator leading advancements in how we live and work. In 2010, as the economy struggled to regain its footing, an Intel program called *Invest in America* led a coalition of *Fortune 500* companies in an effort to hire more young college graduates identified as the next generation of innovators. It lobbied the venture capital community to increase funding of young companies developing new ideas and generating jobs, and Intel increased its own capital commitment to venture financing.

Similarly, Pepsico's program, "Performance with Purpose," addressed important environmental issues, such as clean water access and use of recycled packaging materials.

Meanwhile, Ford Motor Company's Chairman, Bill Ford, is leading a national discussion on the future of "mobility." His mission is to stimulate ideas that might solve the growing problem of chronic road congestion as millions of new cars enter the market.

In each of these cases, the company has made a deliberate choice to invest in a thought leadership program as a means of differentiating itself from the competition in the eyes of key constituencies – consumers, regulators, investors and so on.

THE TIME IS RIGHT

In the last few years, social media have brought about a seismic shift in how and where companies' reputations are shaped. If reputations were previously managed day-to-day through major daily newspapers, they are now in a state of constant flux, with a conversation ongoing every minute of every day. This is not to say that traditional news titles such as *The Wall Street Journal*, the *Financial Times* or *Fortune* have lost their clout. They still wield influence, but they are no longer the only channel of influence to key audiences.

Social media has spawned new voices of influence and created new opportunities for direct dialogue between companies and communities.

If the concern of yesterday was making certain a reporter understood a company's story, the concern today is making certain that millions of people understand what a company stands for.

It should also not be forgotten that traditional communications roles – investor relations, employee communications – continue to play an important part in the overall effort of building a company's reputation. Every time an earnings report is released it is an opportunity to build the company's reputation, even if the results are below expectations. A company can build goodwill with investors and investment analysts by being as open and honest as possible – this is especially important in terms of getting analysts and financial reporters to help carry the company's message to a wider audience. Employees also are "reputation ambassadors" for a company, for good or for ill, so a company's management should foster a culture of respect and engage with its employees on this basis.

Managing reputation comes down to consistent behavior and communication with all stakeholders, bearing in mind the company's "higher purpose." It's a long-distance run, not a sprint, and the importance of significant investment should never be underestimated. As Rupert Murdoch once said: "Our reputation is more important than the last hundred million dollars."

Amanda Duckworth is a Partner is Brunswick's San Francisco office. Her core competency is corporate reputation management. She has repositioned and reinvigorated established corporate brands and managed reputations through transitions, market challenges to business strategy, and full-fledged crises.